Legislative Assembly of Ontario

Assemblée législative de l'Ontario

STANDING COMMITTEE ON PUBLIC ACCOUNTS

MUNICIPAL PROPERTY ASSESSMENT CORPORATION

(Section 3.08, 2010 Annual Report of the Auditor General of Ontario)

2nd Session, 39th Parliament
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Legislative Assembly of Ontario

Assemblée législative de l'Ontario

The Honourable Steve Peters, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Public Accounts has the honour to present its Report and commends it to the House.

Norman W. Sterling, MPP
Chair

Queen's Park
May 2011

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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2nd Session, 39th Parliament

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PREAMBLE

The Auditor General (Auditor) found that in about one in eight cases he examined, a property's assessed value in Ontario differed from its sale price by more than 20%. This was a key finding of his audit report on the Municipal Property Assessment Corporation (MPAC). The Auditor focused on MPAC residential property assessments, which are mass appraisals using a computerized analysis that estimates a property's market value based on recent sales of comparable properties in the same market area. While the Auditor acknowledged this process is not an exact science, he said that individual property owners expected their assessed value to closely approximate market value.

In March 2011 the Standing Committee on Public Accounts held public hearings on the Auditor's report. Senior officials from the Ministry of Finance (Ministry) and MPAC participated in the hearings. (For a transcript of the Committee proceedings please see Committee *Hansard*, March 9, 2011.) The Committee endorses the Auditor's findings and recommendations and presents its findings, views, and recommendations in this report. The Committee requests that MPAC provide the Committee Clerk with written responses to the recommendations within 120 calendar days of the tabling of the report with the Speaker of the Legislative Assembly, unless otherwise specified in a recommendation.

Acknowledgments

The Standing Committee on Public Accounts extends its appreciation to officials from the Ministry of Finance and the Municipal Property Assessment Corporation for their attendance at the hearings. The Committee also acknowledges the assistance provided during the hearings and report writing deliberations by the Office of the Auditor General, the Clerk of the Committee, and staff in the Legislative Research Service.

OVERVIEW

Auditor's Objective

The Auditor's objective was to assess whether MPAC has adequate systems and procedures in place to ensure that:

- the assessment rolls it provides to municipalities are complete, accurate, and based on up-to-date information about individual properties; and
- all costs incurred are prudent in the circumstances with due regard for economy and efficiency.

Background

Overview

The Auditor noted that Ontario municipalities collected more than $20 billion in property tax during 2008 ($14 billion levied by municipalities and $6 billion collected on behalf of school boards). Property tax is calculated by multiplying a property's assessed market value by the applicable tax rate. (The latter is the sum of a municipality's tax rate plus the education tax rate set by the province.) In 1998 the province transferred responsibility for assessing the current market value for properties from the Ministry of Finance to the Ontario Property Assessment Corporation, later renamed the Municipal Property Assessment Corporation. The Auditor noted that in 2009 MPAC expenditures totalled $185.5 million, compared to $156.3 million in 2005.

The Auditor also noted that for a municipality, the most critical aspect of the assessment roll is the total assessed market value of all residential properties within its borders because this figure is the primary determinant of the tax rate. If the total value of residential properties drops, a municipality must usually raise the tax rate to raise the total tax income it requires. He added that the distribution of the total assessed market value among all residential properties matters most to property owners because it is their individual assessed market value that determines residential property taxes that each must pay.

Under the *Municipal Property Assessment Corporation Act, 1997* and the *Assessment Act*, MPAC's primary responsibility is to prepare annual assessment rolls for municipalities, localities, and non-municipal territories. The rolls include the current value of land and buildings liable to taxation, defined under the *Assessment Act* as "the amount of money [a property], if unencumbered, would realize if sold at arm's length by a willing seller to a willing buyer," more commonly referred to as a property's market value.

The MPAC President said that both the accuracy of assessed value for any single property and the equitable assessment of similar properties are crucial for correct allocation of property taxes. MPAC currently assesses more than 4.8 million properties every four years, including about 4.4 million residential properties. In non-assessment update years it prepares about one million property assessment notices a year, for example, for new properties that have just been occupied or for properties where renovations, additions or demolitions have changed a property's market value.

Market Value

The MPAC President said that it is important to recognize that market value is a range of values, not a single number. Sellers set an asking price for a property and establish a minimum price they would accept. Similarly potential buyers set an ideal purchase price as well as a maximum purchase price they are willing to pay. The most likely price between a willing buyer and a willing seller under these conditions lies between the seller's minimum value and the buyer's maximum

value. According to the President, MPAC generally assesses properties in the middle of this range.

Property-tax Assessments Cycle

The Auditor noted that the Ministry of Finance (Ministry) establishes and oversees property-tax assessment policies; MPAC implements the policies. The Ministry intended to update current values annually beginning in 2005 but cancelled updates for the 2007 and 2008 tax years. The government decided on a four-year cycle for property-tax assessments, starting with the 2009 tax year, and to phase in market-value assessment increases over the four-year period. The MPAC Chair said that MPAC is one of the largest assessment jurisdictions in the world, is seen internationally as a leader and model, and has had the accuracy of its models for assessing property confirmed by independent reviews.

Stakeholder Views of MPAC

Both the Auditor and the MPAC Chair added that the Association of Municipalities of Ontario (AMO) has said that municipalities are generally pleased with assessment roll information provided by MPAC. MPAC indicated that property taxpayers have accepted MPAC's assessments more than 97% of the time. An Ipsos Reid survey commissioned by MPAC in late 2010 indicated that almost 80% of property owners who contacted MPAC were satisfied with customer service; almost 85% of municipalities rated their overall satisfaction with the assessment rolls and tax files as "very good" to "good"; and over 95% of MPPs, school board officials and provincial ministry officials rate their overall experience with MPAC as "satisfied." The MPAC Chair also said that MPAC accepted all of the Auditor's recommendations for improvement.

ISSUES RAISED IN THE AUDIT AND BEFORE THE COMMITTEE

Assessed Values of Residential Properties

The Auditor noted that MPAC receives a copy of each Land Transfer Tax statement (hence information about property sales) registered by Ontario's Land Registry Offices. MPAC compares properties through its computerized Integrated Property System, which has an extensive database of property attributes.

He said that MPAC believes it meets its objectives if the overall average difference between assessed values and actual selling prices of all residential properties in an area is less than 10%. The Auditor expressed concern that significant variances can still occur with respect to individual property assessments because MPAC lacks up-to-date accurate data from recent property inspections for many properties and accordingly the assessment may not reflect the physical characteristics of the property at the time of sale.

The Auditor reviewed a sample of 11,500 sales, comparing the properties' sale prices against assessed market value and found 1,400 properties where the assessed market value differed from the sales price by more than 20%. Just under half of the 1,400 sold for more than 20% above assessed value and just over half

sold for more than 20% below. In many cases, the difference was substantial. The Auditor also concluded that MPAC does not investigate the circumstances surrounding property sales that are significantly different than the assessed value in a timely manner. The Auditor recommended that MPAC formally establish a threshold above which these differences must be investigated within a reasonable period of time and where warranted, the property's assessed market value adjusted accordingly.

Is the Sale an Open Market Sale?

The MPAC President agreed that MPAC must investigate such large sale variances in a more timely manner and when such a sale occurs, must determine whether it is an open market sale. He said that distress sales, or sales to a friend or relative, can lead to a sale price lower than the property's current market value. If this is not disclosed on a Land Transfer Tax statement, MPAC must send out a questionnaire or visit the property and/or talk to the owner to obtain the information.

He said that MPAC provided the Auditor with a number of sales that had been incorrectly identified as open market sales. Having investigated 1,307 of the 1,400 sales noted in the Auditor's report, MPAC confirmed that 25% of those where the price was below assessed value were sales between family members, distress sales or abutting-neighbour sales. He cited a "natural randomness" to prices in the real estate market, depending on the motivation of the buyers and sellers, adding that sale prices above assessed value often resulted from new construction or a change to a property that was not reflected in the assessment prior to the sale. In most of these cases assessed value would have been adjusted upon completion of construction and receipt of occupancy information. Sometimes, improvements had been made to a property without a building permit. The sale would have been MPAC's only trigger to investigate.

MPAC's investigation of the 1,307 properties resulted in no change in the assessed value of 720; a reduction by a median amount of $14,250 (about 8%) for 126 assessments; and, an increase by a median amount of $41,000 (16%) for 461 assessments. These results were consistent with those from previous sales investigations. MPAC measures the assessment-to-sale ratio, which indicates variances, was aware of variances for the 1,400 sales flagged by the Auditor and admitted it should have conducted a more timely review of those sales.

Market Value Assessment-to-Sale Price Ratio

MPAC defined the assessment-to-sale ratio cited above as its calculation for the relationship between the assessed amount and the actual sale value of a property, as sold in a base year. The closer the ratio is to 1.0, the more accurate the assessment is. For residential and farm property, the international standard is to achieve a ratio of 0.9 to 1.1. MPAC's accuracy rate for 2008 was 0.99.; its coefficient of dispersion was 7.54% (the international standard is 15% or less).

Future Sales Validation: Physical Inspection and Sales Questionnaires

MPAC receives a nightly feed of sales information from the registry offices via Teranet. Information is generally updated within 10 days of receipt. For the next province-wide assessment update in 2012, MPAC will review sales from 2009 to 2011 and where warranted will investigate through means such as physical inspections and sales questionnaires.

Thresholds in each market area have been determined based on assessment-to-sales ratios to prioritize the level of sales investigation (MPAC scores local areas to statistically determine atypical sale prices). In each area, the greater the difference between the assessed value and the sale price, the higher the level of investigation. MPAC's first follow-up step will be a physical inspection, a sales questionnaire, or if the sales price is relatively close to the assessed value, a desk audit. In cases where the sales price is very close to the estimated value, no follow-up will be undertaken. MPAC is reviewing and updating its performance standards to ensure that sales are investigated in a timely manner.

MPAC is able to capture a sales snapshot in its system which illustrates circumstances at the time of sale. For example, a sale of a lot with a small house on it can be captured for use in valuation analysis, as a comparator for all the other small houses in the neighbourhood that might be purchased and then demolished (the real value of the sale being the value of the land). An MPAC website, AboutMyProperty, allows users to select 25 property data comparators, and is intended to promote transparency.

In the last assessment update MPAC analyzed more than 600,000 sales in over 130 market areas and found that the average sale and the average current value assessment (CVA) were remarkably similar.[1] While MPAC considers the sale price the best evidence, it must consider sales variances in determining a uniform value, consistently derived, for all properties, for example, on a particular street. Even when houses are unsaleable, as might be the case in a single industry town when its mill closes, MPAC estimates assessment values. MPAC would examine the town circumstances carefully, use sales information that reflected an economic event like a mill shut down, and consider expanding the number of years of sales information used in the assessment.

Committee Recommendation

The Standing Committee on Public Accounts recommends that:

1. **The Municipal Property Assessment Corporation (MPAC) shall report to the Standing Committee on Public Accounts on when and how it will investigate significant variances between a property's sales price and its assessed value in a timely manner**

[1] According to MPAC for property assessment purposes, current value and assessed value are the same thing, internet site at http://www.mpac.ca/pages_english/property_owners/glossary_terms_market.asp, accessed on March 22, 2011.

and where warranted adjust the property's assessment accordingly. MPAC should provide the Committee with its most recently available data on the number and percentage of significant sale-to-assessed value variances flagged and information on the action taken.

Building and Occupancy Permits

According to the Auditor, municipalities provide MPAC with copies of issued building permits for possible inspection and reassessment of properties. He also said that MPAC often failed to conduct inspections within the statutory three-year limitation period for retroactively assessing a property. He cited relevant factors including the following:

- Only one of MPAC's 33 regional offices receives formal notification from its municipalities that building-permit work has been completed.
- As of December 31, 2009 nearly 18,000 residential permits totalling approximately $5.1 billion had been issued more than three years ago.

The Auditor recommended that MPAC ask all municipalities in the province to provide it with formal notification when the work with respect to a building permit has been completed. He also recommended that MPAC inspect and reassess the market value of all such properties before statutory limits on retroactively collecting additional tax expire.

MPAC agreed that it must find better ways to obtain information from municipalities about completion of work on building permits and noted that it receives occupancy information from only 24 municipalities. An occupancy permit would be relevant for new home construction; a building permit might cover renovations. MPAC spends what it described as significant resources tracking the progress of building permits, many of which remain delayed or incomplete, and it is working with AMO to obtain information on building and occupancy permits.

Electronic Transfer of Permit Data

MPAC's goal is to receive all building permit information in a standard form and via electronic transmission. At the time of the hearings 270 municipalities transmitted permits electronically; leading municipalities also provided occupancy information electronically. MPAC said that it is trying to schedule receipt of the permit information on a monthly basis and that, for the most part, the 270 municipalities transmitting electronically are keeping to this schedule. Good quality building permit information helps inspectors determine whether work done aligns with permit information. MPAC would like permit information to include specifications such as:

- a description of the type of structure being built;
- the cost to build the structure; or

- the value of the renovation.

The permit application information enables MPAC to know where a building will be built and to forecast its own workload. It needs to know when a building is completed in order to conduct the final inspection. MPAC currently uses alternative sources of information, such as when the Electrical Safety Authority issues its approval of a property's electrical system, to help determine when building permit work is completed and ready for inspection.

Association of Municipalities of Ontario (AMO)

The MPAC Chair said that MPAC is developing a Memorandum of Understanding (MOU) with AMO to ensure that when municipalities issue building permits, and when the work is completed and the final inspection is done, the municipalities forward the information monthly. He added that under the ideal MOU all municipalities would agree to

- notify MPAC electronically when a municipality issues a building permit; and
- notify MPAC electronically when a municipality issues an occupancy permit.

The MPAC Chair noted the challenge in convincing all municipalities to undertake this system of notification. In some cases, inspectors may not be technologically savvy and prefer to submit paper reports, in bulk, once every six months, or once a year. Such envelopes of information require processing by MPAC data entry staff.

The MPAC Chair wants the municipal MPAC board representatives to help ensure that municipal partners understand MPAC's needs. The Chair said that he held meetings with both the AMO President and the Executive Director (Pat Vanini) and hoped to hold a joint board meeting with AMO in March 2011. He believes that an MPAC revenue plan that demonstrably and quickly returns revenue to municipalities would secure their agreement to a request for an increase (of 2%-3%) in annual dues that help fund MPAC operations.

Adding New Assessment to the Property Assessment Rolls

The MPAC President said that a key focus is adding assessment for new construction (or renovations) to the property tax rolls, that MPAC normally adds about $20 billion in new property assessment each year, and that in 2010 it added a record $28.4 billion. He also commented on the Auditor's observation that by the end of 2009 there were 18,000 permits outstanding that had been issued more than three years earlier. The MPAC President noted that in almost half those cases work had not been completed on permits and could not be added to the roll. While it currently takes 10-11 months for new assessments (for example for new subdivisions) to be added to assessment rolls, MPAC's target is within six months of occupancy. MPAC is able to make an assessment for the current year and the previous two years but believes it is in the interest of the taxpayer for the

assessment to be up-to-date in order for the taxpayer to avoid receiving a three-year tax bill.

The Committee asked for the value of forgone taxes caused by lack of timely information or MPAC's inability to conduct an accurate assessment. The MPAC President said if all those cases for the building permits cited by the Auditor where work was not completed were "totally at risk" that the cases would represent about 1% of the amount of assessment that MPAC would add annually to the assessment roll. (In 2010, for example, that would be 1% of 28.4 billion, or $284 million.) He said the total value of the Ontario assessment roll was approximately $1.7 trillion.

Committee Recommendation

The Standing Committee on Public Accounts recommends that:

2. **The Municipal Property Assessment Corporation (MPAC) shall provide the Standing Committee on Public Accounts with an update on MPAC's discussions with the Association of Municipalities of Ontario (AMO) and non-AMO members, including the City of Toronto, to obtain regular, timely, complete and accurate information on both completed building permits and occupancy/completion status reports issued by municipalities in Ontario. This information should include:**

   - **data on how many municipalities are now providing MPAC with completed building permit information and how many are providing it with occupancy/completion status information;**
   - **a list that identifies those municipalities with property counts greater than 5,000 that have not submitted information about building permits within six months of the work having been completed;**
   - **a list that provides the names of those municipalities with property counts greater than 5,000 that have not submitted occupancy/completion status information within three months of the permit having been issued;**
   - **a list that provides the names of those municipalities with property counts greater than 5,000 that did not submit the building permit and occupancy/completion status information; and**
   - **an update on whether municipalities report in a standardized way, with the level of detail requested by MPAC.**

   MPAC should annually publish on its website the lists of names of those municipalities with property counts greater than 5,000 that were delayed in submitting the information as noted above and the names of municipalities that did not submit the information.

Requests for Reconsideration and Assessment Review Board Appeals

The Auditor noted that a Request for Reconsideration (RfR) of a residential property may be filed only by the property owner or his/her legal representative. RfR property reviews are conducted by MPAC's valuation-review specialists. The Auditor said property owners filed approximately 138,000 RfRs in 2009, equal to about 3% of the total number of residential properties.

He noted that for the 2006 to 2008 tax years, one in four RfR files reviewed had no documentation to support the outcome of the review, though RfR documentation had improved in 2009. The Auditor recommended that MPAC establish mandatory requirements for conducting and documenting RfRs; and on a sample basis, conduct and document managerial file reviews of all RfRs, including those that result in no assessment changes, to ensure compliance with suggested requirements for conducting an RfR.

MPAC said that it had conducted a review of the 3% of cases (cited by the Auditor) that had requested a review and that following the MPAC review, approximately 40% of that 3% had received an assessment reduction. In about half of those cases, reductions resulted from missing or out-of-date data in MPAC's files; the other half resulted from further reviews or local market adjustments. MPAC said that over the years the number of assessment complaints has declined significantly.

MPAC cited a number of appeals and RfR improvements since 2008 including changes to the appeals and RfR process for residential, farm and managed forest property owners. Previously those appeals had to be filed by March 31; now these property owners may appeal an RfR decision up to 90 days after receipt of an RfR decision. Additionally, according to MPAC, the Assessment Review Board introduced new rules for evidence exchange before a hearing and has been constricted in adjusting a value. Adjustments must be based on accuracy and equity. The equity stipulation had been removed from the *Assessment Act* but has been restored.

The MPAC President also noted that since 2008, in cases where there has been an adjustment made for an RfR on appeal, MPAC provides an attachment to the assessment notice and update indicating the year of the RfR, whether it was carried forward, and if not, why it was not carried forward. MPAC also now has policies in place to ensure that managers provide and document oversight for RfR decisions.

Committee Recommendation

The Standing Committee on Public Accounts recommends that:

3. **The Municipal Property Assessment Corporation (MPAC) shall provide the Standing Committee on Public Accounts with information on the results of managerial file reviews conducted since the audit.**

Inspections

Property Inspection Cycle

According to the Auditor, MPAC established an inspection cycle in 2007 requiring that every property be inspected at least once every 12 years – a longer cycle than in many other jurisdictions and significantly longer than the four to six year cycle recommended by the International Association of Assessing Officers. Referring to 2009 data, he said that MPAC was unable to provide accurate or meaningful information about the number of property inspections completed. The Auditor recommended that MPAC require that each regional office select annually some properties for an inspection, based on the risk of under- or over-assessment, with a view to working toward meeting its 12-year inspection cycle. The Auditor also recommended that MPAC maintain accurate and meaningful information with respect to the number and type of inspections completed.

The MPAC President said that both the timing of sales investigations and adding assessments to the roll have impacted inspection cycles and that every assessment jurisdiction is challenged in this regard. He belongs to the Canadian Directors of Assessment and is not aware that any jurisdiction in Canada is now on a fixed cycle. Nor is he aware of any assessment jurisdiction that is able to achieve the four to six year cycle recommended by the International Association of Assessing Officers. He said this would be a very expensive undertaking.

British Columbia, with approximately 1.9 million properties, faces challenges in keeping its property data up to date. In Saskatchewan, legislation that set a specific inspection cycle was repealed because it could not be achieved. The MPAC President said that the goal of an inspection is to make sure that MPAC's information about individual properties is correct and that MPAC is already undertaking actions to increase productivity and accelerate its inspection cycle.

Significant growth in Ontario is one factor impacting the inspection cycle as MPAC has focused on new growth, and on RfRs and appeals. MPAC has allowed those issues to take priority over targeting unique properties that would actually result in an improved inspection cycle. MPAC is currently looking at additional staffing and different ways to confirm information related to permits.

As for an accurate count of property inspections, MPAC explained that an inspection may require an inspector to visit a property numerous times and that those visits end up being counted as separate inspections. MPAC believes such multiple count cases represent 15% of its total inspections. MPAC has reviewed how it records the information and is now ensuring that it only counts the number of individual properties inspected.

Inspector Workloads

The Auditor said that MPAC's informal guideline is for inspectors to complete between five and 11 inspections per day but he found that in practice (for the offices that he visited) the average number was five, and as low as three. A rate of five per day would result in an inspection cycle of approximately 18 years. The

Auditor added that the total number of inspectors peaked at approximately 320 in 2007 and had declined to about 230 by April 2010. He recommended that MPAC regularly monitor and assess the productivity of inspectors and oversee the success of each regional office in meeting the 12-year inspection-cycle.
MPAC said that its overall inspection rate was 4.1 inspections per day. The rates per inspector can vary according to circumstances. For example, an inspector working in Northern Ontario may need to travel vast distances between properties in comparison with an inspector working in a Toronto subdivision. MPAC is now addressing the issues of work allocation across the province.

The MPAC President said that the number of 320 inspectors in 2007 cited by the Auditor included about 50 contractors used that year, with board approval, to improve the inspection rate. In following years the number dropped, to 270, and then lower. With the addition of 20 inspectors, MPAC is back up to 250 inspectors. When the Auditor conducted his audit, there were vacant inspector positions because of a reallocation of staff to other types of work such as processing RfRs. The MPAC Chair said that the board has ultimate responsibility for staffing issues and added "it looks like where we cut, maybe we need to put people back."

In addition to adding property inspectors back, in 2010 MPAC introduced hand-held computing devices for recording data related to new construction in a number of its offices. This enables on-site electronic capture of property information with automated uploading and updating of data to MPAC's central system. Nine more offices, which account for approximately 80% of all new construction in Ontario, will move to the hand-held system in 2011. MPAC has established detailed inspection work plans for each of its offices. Uniform reporting requirements for inspectors should assist in compiling and monitoring performance data.

The MPAC President noted limitations with physical inspections. Increasingly people are not at home during the day, making it difficult to verify interior property information, such as whether a home has a finished basement. MPAC is examining alternate means of verifying the physical characteristics of a property, such as phone surveys, mail-out questionnaires, and satellite and street imagery. MPAC expects such measures to assist it in reaching its 12-year inspection cycle target, and would manage their cost within existing budgets. While the estimated cost for the 20 new inspectors is between $1 – 1.5 million, savings would accrue from other measures such as obtaining information from satellite imagery instead of an actual site visit. The MPAC President noted that one challenge will be ensuring that standards are maintained and that the assessment is right.

Risk-based Inspections

MPAC flags areas that are at high risk for inspection, such as areas with a high rate of appeals with older housing stock that MPAC has not been inspecting. MPAC will then target all of the properties in the neighbourhood (rather than one property on one block and another, three blocks over) in order to ensure that

everyone in the neighbourhood is treated in the same way. MPAC also tries to ensure that it is equitable in its dealings among all of the 444 municipal partners who help pay for MPAC's budget.

Quality of Inspections Performed

The Auditor noted that there are supposed to be two distinct quality-control processes for inspections that do result in a change to assessed value:

- Every inspection file must receive a supervisory review and approval by another inspector in the regional office.
- A corporate quality-control unit reviews a small sample of inspection files and re-inspects the subject property.

The Auditor recommended that MPAC ensure that supervisory reviews of inspection files are properly completed and adequately documented as required and that it include some inspection files that did not result in a change to a property's assessed value in its review process.

The MPAC President said that MPAC has a good quality control function at head office (the Auditor noted that corporate-level reviews were adequately documented but cited issues at the field office level). He said that, as pointed out by the Auditor, MPAC needs to introduce better process controls, better quality measurements, more audits, and to follow-up in cases of deficient work, focusing in particular on field offices.

Committee Recommendation

The Standing Committee on Public Accounts recommends that:

4. **The Municipal Property Assessment Corporation (MPAC) shall report back to Standing Committee on Public Accounts on what progress is being achieved in meeting MPAC's targeted 12-year inspection cycle following the addition of 20 inspectors. MPAC should specify**

   - **its most recently available data on the average number of inspections carried out per inspector per day and the current length of the inspection cycle;**
   - **how it is ensuring that inspections are primarily carried out based on the risk of under- or over-assessment;**
   - **whether its inspection cycle is being demonstrably shortened by the increasing use of hand-held computing devices, satellite imagery, phone surveys and other such measures; and**
   - **what measures it has introduced to ensure that there is a high quality field office review of inspection files.**

Expenditures

The Auditor noted that MPAC's policies for procuring goods and services, and its travel, meals, hospitality and other miscellaneous expenses were generally reasonable but added that his review of goods and services expenditures indicated that MPAC did not comply with good business practices or with its own mandatory policies and procedures. He also said that MPAC's requirements for contracting, processing payments to consultants and contractors, and contractor evaluations were either non-existent or largely ineffective.

The MPAC President said that MPAC has significantly strengthened its policies for acquiring goods and services and is following the direction received from the government with respect to procurement, as well as travel, meals and hospitality. It is also taking a number of steps to ensure compliance, including employee training and audit checks.

Acquisition Process for Goods and Services

Breaches of MPAC's competitive acquisition requirements found by the Auditor included the following:

- no evidence of competitive acquisition as required by corporate policy for almost half of the acquisitions; and
- inadequate documentation for over half the acquisitions competitively acquired. For example, a multi-year contract with a potential value of over $450,000 was awarded to a vendor who scored zero in all selection criteria and was the lowest-rated bid. The rationale for selecting this vendor was not documented.

MPAC said that it began tightening its procurement processes in 2008 when it hired a procurement manager with appropriate educational credentials. MPAC then began building a new policy framework, created a new accountability framework, a new delegation of authority, and in January 2010, introduced a new enterprise planning system that automated a number of business practices and processes.

MPAC managers have been trained on a new procurement policy, which is aligned with the province's, and is posted on the MPAC website. One of the procurement manager's key performance indicators is to have a 100% compliance rate. MPAC believes that these measures have significantly tightened its processes and will prevent the kinds of activities identified by the Auditor from reoccurring.

MPAC has improved the documentation process since then, to promote transparency and align with the Ontario government's procurement policy. When it hires a contractor, MPAC obtains multiple candidates from at least three agencies. The preferred candidate is selected on the basis of skill and price. In 2010 MPAC re-tendered all of its contracts and established a new vendor-of-record list, which will be in place for three years.

Travel, Meals and Hospitality

The Auditor reviewed a wide variety of travel, meals, hospitality and other expenses and noted a number of questionable expense claims. For example, the Auditor noted that staff members were reimbursed on numerous occasions for hotel accommodations within close proximity to their normal place of work, a violation of MPAC's employee expense policy. He also said that the validity of one-quarter of the claims for the use of a personal vehicle could not be substantiated. MPAC maintains a fleet of 12 boats; two were not used at all during 2009 and five were used less than 10 days during the year. One of the Auditor's recommendations was that MPAC adopt more rigour in enforcing its travel, meals, and hospitality policies.

MPAC said that it has strengthened its travel, meals, and hospitality policy beyond what the government requires. It has tried to establish specific guidelines for managers for on-site and off-site business meetings. MPAC's motor vehicle policy encourages all staff to use one of its 218 fleet vehicles. If a fleet vehicle is not available the next option is rental, followed by the option of personal vehicle use. Reimbursable claims totalled $87,000 in 2010, down from a previous high of $174,000. MPAC said it is experiencing a steady decline in the number of personal claims. It is emphasizing accuracy in maintenance of vehicle logbooks and is examining ways to automate the logging process.

MPAC said that some of the boats in its fleet are 10 - 20 years old. It added that 40,000 properties are situated on waterfront. MPAC is installing new GPS tracking devices on every boat, which will allow it to determine usage. If it finds under usage, it will redeploy those boats accordingly. MPAC said that these boats, typically 14 -16 feet with 20-horsepower motors, are low cost and make up a very small operational component of the budget.

Committee Recommendation

The Standing Committee on Public Accounts recommends that:

5. **The Municipal Property Assessment Corporation (MPAC) shall report to the Standing Committee on Public Accounts on what oversight process it now has in place to ensure its revised procurement, and travel, meals and hospitality policies are actually being followed by MPAC staff.**

CONSOLIDATED LIST OF COMMITTEE RECOMMENDATIONS

The Standing Committee on Public Accounts requests that the Municipal Property Assessment Corporation provide the Committee Clerk with a written response to each of the Committee's recommendations within 120 calendar days of the tabling of the report with the Speaker of the Legislative Assembly, unless otherwise specified in a recommendation.

The Standing Committee on Public Accounts recommends that:

1. The Municipal Property Assessment Corporation (MPAC) shall report to the Standing Committee on Public Accounts on when and how it will investigate significant variances between a property's sales price and its assessed value in a timely manner and where warranted adjust the property's assessment accordingly. MPAC should provide the Committee with its most recently available data on the number and percentage of significant sale-to-assessed value variances flagged and information on the action taken.

2. The Municipal Property Assessment Corporation (MPAC) shall provide the Standing Committee on Public Accounts with an update on MPAC's discussions with the Association of Municipalities of Ontario (AMO) and non-AMO members, including the City of Toronto, to obtain regular, timely, complete and accurate information on both completed building permits and occupancy/completion status reports issued by municipalities in Ontario. This information should include:

- data on how many municipalities are now providing MPAC with completed building permit information and how many are providing it with occupancy/completion status information;
- a list that identifies those municipalities with property counts greater than 5,000 that have not submitted information about building permits within six months of the work having been completed;
- a list that provides the names of those municipalities with property counts greater than 5,000 that have not submitted occupancy/completion status information within three months of the permit having been issued;
- a list that provides the names of those municipalities with property counts greater than 5,000 that did not submit the building permit and occupancy/completion status information; and
- an update on whether municipalities report in a standardized way, with the level of detail requested by MPAC.

MPAC should annually publish on its website the lists of names of those municipalities with property counts greater than 5,000 that were delayed in submitting the information as noted above and the names of municipalities that did not submit the information.

3. The Municipal Property Assessment Corporation (MPAC) shall provide the Standing Committee on Public Accounts with information on the results of managerial file reviews conducted since the audit.

4. The Municipal Property Assessment Corporation (MPAC) shall report back to Standing Committee on Public Accounts on what progress is being achieved in meeting MPAC's targeted 12-year inspection cycle following the addition of 20 inspectors. MPAC should specify

- its most recently available data on the average number of inspections carried out per inspector per day and the current length of the inspection cycle;
- how it is ensuring that inspections are primarily carried out based on the risk of under- or over-assessment;
- whether its inspection cycle is being demonstrably shortened by the increasing use of hand-held computing devices, satellite imagery, phone surveys and other such measures; and
- what measures it has introduced to ensure that there is a high quality field office review of inspection files.

5. The Municipal Property Assessment Corporation (MPAC) shall report to the Standing Committee on Public Accounts on what oversight process it now has in place to ensure its revised procurement, and travel, meals and hospitality policies are actually being followed by MPAC staff.